

5 KEY REASONS A BUSINESS NEEDS TO KEEP BOOKS

Sources: <http://www.bestchoiceaccountancy.co.uk/blog/accounts/accounting-records/>

<https://www.cengage.com/c/century-21-accounting-general-journal-2012-update-9e-gilbertson/9781111988623PF/>

- So the business owner has an accurate record of the totals of all income and expenses of the year for the reporting of annual income taxes.
 - It is extremely important to maintain good accounting records in case of an audit.
 - Unfortunately, audits do occasionally happen whether you are doing what you're supposed to or not.
 - However, there is no need to fear an audit if you are maintaining good daily records.
- Helps to stay organized when dealing with customers and suppliers.
 - Producing invoices, quotations and estimates promptly is vital. An early estimate can be the difference between winning and losing a job.
 - Similarly do not rely on supplier's statements. You need to know before they tell you how much you owe.
- To determine where the company may be able to cut back on expenses in order to increase its cash flow.
 - More money anyone? Indeed, increasing cash flow is always a high priority and a very good thing in any business!
 - It is good practice to review monthly business financial statements such as the balance sheet and income statement and take a good hard look at any excessive spending that can be reduced.
- To know how much money the business has at any given time in order to be able to stay current on accounts payable.
 - If you don't know how much money you have at any given moment, how are you supposed to be able to maintain being able to pay your vendors in a timely manner?
- Enables the owners and managers to make informed decisions to help the business grow.
 - Reliable and accurate information can only be extracted from records that are kept well.

	DATE	ACCOUNT TITLE	DOC. NO.	POST. REF.	DEBIT	CREDIT	
1	Aug. 1	Cash	R1	110	500000		1
2		Kim Park, Capital		310		500000	2
3	3	Supplies	C1	150	27500		3
4		Cash		110		27500	4
5	4	Prepaid Insurance	C2	160	120000		5
6		Cash		110		120000	6
7	7	Supplies	M1	150	50000		7
8		Accounts Payable—Supply Depot		210		50000	8
9	11	Accounts Payable—Supply Depot	C3	210	30000		9
10		Cash		110		30000	10
11	12	Cash	T12	110	29500		11
12		Sales		410		29500	12
13	12	Accounts Receivable—Oakdale School	S1	130	35000		13
14		Sales		410		35000	14
15	12	Rent Expense	C4	540	30000		15
16		Cash		110		30000	16
17	12	Utilities Expense	C5	560	4000		17
18		Cash		110		4000	18
19	13	Accounts Receivable—Campus Internet Cafe	R3	140	10000		19
20		Sales		410		10000	20
21	14	Advertising Expense	C7	510	7800		21
22		Cash		110		7800	22
23	14	Cash	T14	110	44500		23
24		Sales		410		44500	24
25	17	Petty Cash	C8	120	10000		25
26		Cash		110		10000	26
27	18	Cash	R2	110	20000		27
28		Accounts Receivable—Oakdale School		130		20000	28
29	18	Kim Park, Drawing	C6	320	12500		29
30		Cash		110		12500	30
31	18	Advertising Expense	C9	510	12500		31
32		Cash		110		12500	32
33	20	Supplies	M2	150	5000		33
34		Accounts Payable—Thomas Supply Co.		220		5000	34
35							35

- If you don't have good records, it's much harder to make good decisions.

CLASS ACTIVITY:

You will attempt to answer the following questions two times.

- For the first attempt, use the journal on the other side and the source documents to the right.
- For the second attempt, use the book pages given in the table.

Journal Entry (Handwritten):

Aug 12, 20--
T92

15	15
3	3
11	11
25	25

Source Documents:

Check No. 1
 Date: August 3, 20--
 Pay to the order of: Port City Supply
 Amount: \$275.00
 Two hundred seventy-five and 00/100
 For Cash on Hand Only
 Kim Park

Receipt No. 1
 Date: August 1, 20--
 Rec'd from: Kim Park
 For: Investment
 Amount: \$5,000.00
 Five thousand and no/100

TechKnow Consulting
 7549 Broadway
 Portland, OR 97202-2531

Sold to: Oakdale School
 5211 SE Oak Street
 Portland, OR 97208-5392
 No. 1
 Date 8/12/--
 Terms 30 days

Description	Amount
Computer Network Setup	\$350.00
Total	\$350.00

Questions:	First Attempt Answers:	Second Attempt Answers:
1. How much does TechKnow Consulting owe Supply Depot for the supplies that were purchased on August 7, 20--?		(Use the memorandum on p. 59, general journal on p. 100, and/or ledger on p. 103.)
2. Jan from Oakdale School frantically called and wants to know how much they owe for the computer network setup that was done on August 12th. She needs to know ASAP!		(Use the sales invoice on p. 58 and/or the ledger on p. 103.)
3. How much money did TechKnow Consulting have in the Cash Account on August 4, 20--?		(Use the ledger on page 102.)
4. How much did TechKnow Consulting spend on supplies that were used during the month ending August 31, 20--?		(Use page 158, the work sheet on page 164, and/or adjusting entries of the journal on page 202.)
5. Did TechKnow Consulting make or lose money for the month ending August 31, 20--?		(Use the income statement on page 184.)

Follow Up Questions:

- Which attempt was **easier** and why?
- Which attempt was **more successful** and why?
- What does this mean for how you should keep organized in Accounting class?

ANSWERS AND FOLLOW UP EXPLANATION:

Questions:	First Attempt Answers:	Second Attempt Answers:
1. How much does TechKnow Consulting owe Supply Depot for the supplies that were purchased on August 7, 20--?	A: \$500.00 (could find it on the journal)	<p>(Use the memorandum on p. 59, general journal on page 100, and/or ledger on page 103.)</p> <p>A: \$500.00</p> <ul style="list-style-type: none"> • (Have them look at page 59) Memorandums are source documents that are written up when no other source document fits. An accountant MUST write one up if there is not another paper trail of some sort (check, invoice, etc.) • The source document is where it all starts. That's where the info comes from to record a journal entry (Have them look at the journal on page 100) This is where transactions are recorded in chronological order, going by the date in which they happen. • Journal entries are what is used to post to the ledger. (Have them look at the ledger on page 103.) The ledger is an updated balance of each individual account. • (Have them look at the graphic of accounting cycle on page 217.) The ledger is where you get info for the work sheet, the work sheet is where you get info for the income statement and balance sheet. AND those are the documents owners and managers look at to make decisions about the business!
2. Jan from Oakdale School frantically called and wants to know how much they owe for the computer network setup that was done on August 12th. She needs to know ASAP!	A: \$350.00 (probably got it correct using the picture of the invoice)	<p>(Use the sales invoice on p. 58 and/or the ledger on p. 103.)</p> <p>A: \$350.00</p> <ul style="list-style-type: none"> • (Have them look at p. 58.) A sales invoice is a source document that is used for recording a sale on account – meaning it wasn't paid for yet. In this case, it acts as a bill that Oakdale School owes TechKnow Consulting. • (Have them look at p. 103.) The ledger account is an up to date balance of what is owed. It may include more than one purchase on different dates. An up to date ledger will also include any payments that have been made on the account.
3. How much money did TechKnow Consulting have in the Cash	A: \$3,525.00 (might've gotten it if added/ subtracted debits/credits)	<p>(Use the ledger on page 102.)</p> <p>A: \$3,525.00</p> <ul style="list-style-type: none"> • (Have them look at the journal that was given.) The journal keeps track chronologically. That means that transactions for ALL accounts are recorded here. When you want to

Account on August 4, 20--?	correctly, but probably said \$1,200.00 because that was the transaction amount on that day.)	<p>know what's going on in a specific account, the ledger is the place to look.</p> <ul style="list-style-type: none"> (Have them look at the ledger on page 102.) Here we can see everything that happened with the Cash account during August. The "Debit" and "Credit" columns in the middle are for each individual transaction, the columns on the right with "Balance" above the "Debit" and "Credit" column headings are to keep track of how much is in the account at all times – a running balance.
4. How much did TechKnow Consulting spend on supplies that were used during the month ending August 31, 20--?	A: (may say \$825 if added all the times supplies is listed in the journal given, but this journal ends on the 20 th . It only accounts for how much was purchased until the 20 th)	<p>(Use page 158, the work sheet on page 164, and/or adjusting entries of the journal on page 202.)</p> <p>A: \$715.00</p> <ul style="list-style-type: none"> Adjustments are changes made to show what an account balance should be at the end of an accounting cycle. There is an accounting concept called: Matching Expenses with Revenue. This means we should decrease the supplies account to show how much was used during August. We still have some supplies left and that carries over to the next month. Look at the bubble with the little calculator on page 158. At the end of the month, we had \$1,025.00 worth of supplies recorded in the Supplies account. But we counted up all the supplies we physically have and gave them a dollar amount of \$310.00. That means we used \$715.00 worth of supplies during the month. THAT'S the <i>adjustment</i> we have to record. Look at page 164 in the "Adjustments" column of the work sheet. This is where you first record any adjustments made.
5. Did TechKnow Consulting make or lose money for the month ending August 31, 20--?	A: ?? may've written something down using the numbers from the journal given.	<p>(Use the income statement found on page 184.)</p> <p>A: Made \$2,099.00</p> <ul style="list-style-type: none"> Net Income means the business brought in more money than they spent. Net loss means the business spent more than was made.

Follow Up Questions:

A. Which attempt was **easier** and why?

The second attempt because the info was right there for us.

B. Which attempt was **more successful** and why?

The second one because we were given all the info – stuff wasn't missing.

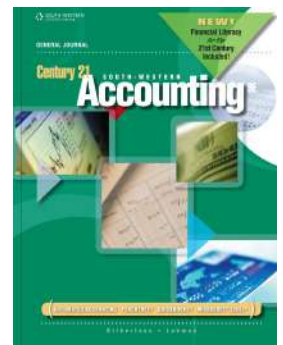
In Accounting if records aren't kept up-to-date, info isn't where we need it when we need it – like when a customer calls and wants to know how much they owe or our boss needs to know how much cash we have or how much the business made last month.

C. What does this mean for how you should keep organized in Accounting class? We should keep our records (assignments) up to date and accurate. In addition to grades for problems done in class, you will also earn grades for keeping your materials organized. We will be graded on “Binder Audits” every so often.

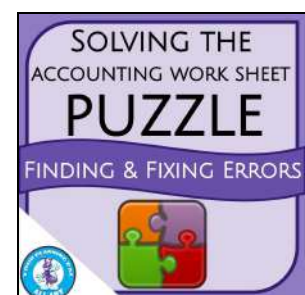
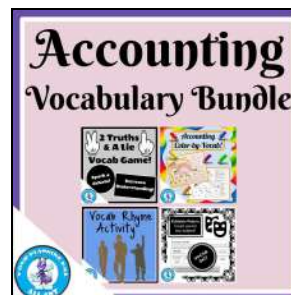
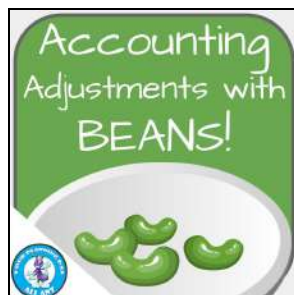
An audit in accounting is an official inspection of accounts, typically by an outside accounting firm OR the IRS for tax purposes. Businesses don't always know WHEN an audit is coming.

Similarly, you may not always know when a “Binder Audit” is coming. :) Keep your papers organized and you should earn easy points! It is good practice for any career, but especially if you plan on going into Accounting!

P.S. I'm sharing this here because it's old and very specific to this textbook:



I share tons of other accounting-related stuff on TPT including these ↓ and a ton of FREEBIES!



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